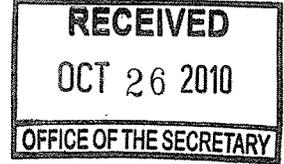


COPY

UNITED STATES OF AMERICA  
Before the  
SECURITIES AND EXCHANGE COMMISSION

HARD COPY



In the Matter of:	)	
	)	
JOHN P. FLANNERY, and	)	ADMINISTRATIVE PROCEEDING
JAMES D. HOPKINS	)	FILE NO. 3-14081
	)	
	)	

**ANSWER OF JOHN PATRICK (“SEAN”) FLANNERY TO ORDER INSTITUTING ADMINISTRATIVE AND CEASE-AND-DESIST PROCEEDINGS**

John Patrick (“Sean”) Flannery hereby answers the Securities and Exchange Commission’s (the “Commission”) *Order Instituting Administrative and Cease-and-Desist Proceedings Pursuant to Section 8A of the Securities Act of 1933, Section 21C of the Securities Exchange Act of 1934, Section 203(f) of the Investment Advisors Act of 1940, and Section 9(b) of the Investment Company Act of 1940* (the “Order”). Except as specifically indicated otherwise, below, Mr. Flannery denies each and every allegation set forth in the Order, and denies that the Commission is entitled to any of the relief that it demands.

**I.**

This section contains legal conclusions and makes characterizations to which no response is required. Mr. Flannery denies that any action against him is warranted.

## II.

### A. SUMMARY<sup>1</sup>

1. Mr. Flannery denies the allegations of paragraph 1.

2. Mr. Flannery admits that State Street offered investment opportunities, including in certain collective trust funds, to sophisticated institutional investors that included, but was not limited to, pension funds, employee retirement plans, and charities. Mr. Flannery admits the allegations of the second and third sentences of paragraph 2. Mr. Flannery also admits that the Fund was invested in mortgage-related securities, some of which came to be known within the marketplace as “subprime” investments. The remaining allegations of paragraph 2 do not pertain to Mr. Flannery and, as such, no response is required. Except as specifically admitted, Mr. Flannery denies the allegations of paragraph 2.

3. Mr. Flannery denies the allegations of paragraph 3.

4. Mr. Flannery admits that State Street repeatedly communicated with investors in the Fund and the related funds in a variety of ways before and after July 26, 2007, including through a series of written communications that were intended to augment other information provided to investors. Answering further, Mr. Flannery states that each of the written communications were reviewed, edited, and approved by, among other groups within the company, State Street’s in-house counsel, as well as outside legal counsel. Except as specifically admitted, Mr. Flannery denies the allegations of paragraph 4.

5. Mr. Flannery denies the allegations of paragraph 5.

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<sup>1</sup> For the reader’s convenience, Mr. Flannery has quoted the headers and sub-headers used by the Commission in its Order. In so doing, Mr. Flannery does not adopt or endorse the Commission’s allegations, descriptions, or characterizations, except as otherwise expressly set forth in Mr. Flannery’s responses to each of the Order’s individual paragraphs.

**B. RESPONDENTS**

6. Mr. Flannery denies the allegation that he was terminated by State Street. Mr. Flannery admits the remaining allegations of paragraph 6.

7. The allegations of paragraph 7 do not pertain to Mr. Flannery, and as such, no response is required. To the extent a response is required, Mr. Flannery is without sufficient knowledge or information to respond to the allegations of paragraph 7 and, therefore, denies them.

**C. OTHER RELEVANT ENTITIES**

8. Mr. Flannery admits the allegations of paragraph 8.

9. Mr. Flannery admits that SSgA Funds Management (“SSgA FM”) is a subsidiary of State Street Corporation. Mr. Flannery is without sufficient knowledge or information to respond to the remaining allegations of paragraph 9 and, therefore, denies them.

**D. ALLEGATIONS**

**Background – The Limited Duration Bond Fund (the “Fund”)**

10. Mr. Flannery admits that State Street established the Fund in February 2002 as an actively-managed fund. Mr. Flannery further admits that the Fund offered daily redemptions and that investors purchased or sold units of the Fund based on the Fund’s daily net asset value. Mr. Flannery also admits that State Street only offered the Fund and the related funds to certain sophisticated institutional investors. Mr. Flannery also admits that the Fund’s minimum credit quality was BBB. Mr. Flannery is without sufficient knowledge or information to respond to the remaining allegations of paragraph 10 and, therefore, denies them.

11. Mr. Flannery admits that the Fund consistently achieved its target performance over several years prior to 2007. Answering further, Mr. Flannery states that, contrary to these allegations, there were multiple definitions of “subprime” and, as used in the vernacular, the

meaning of the term “subprime” evolved over time. Except as specifically admitted, Mr. Flannery denies the remaining allegations of paragraph 11.

12. Mr. Flannery denies the allegations of paragraph 12.

**Hopkins’ Misrepresentations Regarding Subprime Investments, Use of Derivatives, and Leverage in Offering Documents and Investor Communications in the First Half of 2007**

13. The allegations of paragraph 13 do not pertain to Mr. Flannery and, as such, no response is required. To the extent a response is required, Mr. Flannery is without sufficient knowledge or information to respond to the allegations of paragraph 13 and, therefore, denies them.

14. The allegations of paragraph 14 do not pertain to Mr. Flannery and, as such, no response is required. To the extent a response is required, Mr. Flannery is without sufficient knowledge or information to respond to the allegations of paragraph 14 and, therefore, denies them.

15. The allegations of paragraph 15 do not pertain to Mr. Flannery and, as such, no response is required. To the extent a response is required, Mr. Flannery is without sufficient knowledge or information to respond to the allegations of paragraph 15 and, therefore, denies them.

16. The allegations of paragraph 16 do not pertain to Mr. Flannery and, as such, no response is required. To the extent a response is required, Mr. Flannery is without sufficient knowledge or information to respond to the allegations of paragraph 16 and, therefore, denies them.

17. The allegations of paragraph 17 do not pertain to Mr. Flannery and, as such, no response is required. To the extent a response is required, Mr. Flannery is without sufficient

knowledge or information to respond to the allegations of paragraph 17 and, therefore, denies them.

18. The allegations of paragraph 18 do not pertain to Mr. Flannery and, as such, no response is required. To the extent a response is required, Mr. Flannery is without sufficient knowledge or information to respond to the allegations of paragraph 18 and, therefore, denies them.

19. The allegations of paragraph 19 do not pertain to Mr. Flannery and, as such, no response is required. To the extent a response is required, Mr. Flannery is without sufficient knowledge or information to respond to the allegations of paragraph 19 and, therefore, denies them.

20. The allegations of paragraph 20 do not pertain to Mr. Flannery and, as such, no response is required. To the extent a response is required, Mr. Flannery is without sufficient knowledge or information to respond to the allegations of paragraph 20 and, therefore, denies them.

21. The allegations of paragraph 21 do not pertain to Mr. Flannery and, as such, no response is required. To the extent a response is required, Mr. Flannery is without sufficient knowledge or information to respond to the allegations of paragraph 21 and, therefore, denies them.

22. The allegations of paragraph 22 do not pertain to Mr. Flannery and, as such, no response is required. To the extent a response is required, Mr. Flannery is without sufficient knowledge or information to respond to the allegations of paragraph 22 and, therefore, denies them.

23. The allegations of paragraph 23 do not pertain to Mr. Flannery and, as such, no response is required. To the extent a response is required, Mr. Flannery is without sufficient knowledge or information to respond to the allegations of paragraph 23 and, therefore, denies them.

24. The allegations of paragraph 24 do not pertain to Mr. Flannery and, as such, no response is required. To the extent a response is required, Mr. Flannery is without sufficient knowledge or information to respond to the allegations of paragraph 24 and, therefore, denies them.

**State Street's Internal Advisory Groups Caused Their Investors to Redeem the Fund**

25. Mr. Flannery denies the allegations in the first sentence of paragraph 25. Mr. Flannery admits that, at some point in 2007, Global Asset Allocation ("GAA"), Office of the Fiduciary Advisor, and Charitable Asset Management (the three groups are hereinafter referred to collectively as the "Three Advisory Groups") recommended a change of investment strategy to their respective clients, but denies the remaining allegations in the second sentence of paragraph 25. Except as specifically admitted, Mr. Flannery denies the allegations of paragraph 25.

26. Mr. Flannery admits that, at some point in 2007, the Three Advisory Groups recommended a change of investment strategy to their clients. Mr. Flannery is without sufficient knowledge or information to respond to the remaining allegations of paragraph 26 and, therefore, denies them. Except as specifically admitted, Mr. Flannery denies the allegations of paragraph 26.

27. Mr. Flannery denies the allegations of paragraph 27.

28. Mr. Flannery admits that certain of State Street's advisory groups were invested in the Fund and related funds, but is without sufficient knowledge or information to respond to the remaining allegations of paragraph 28 and, therefore, denies them.

29. Mr. Flannery denies the allegations of paragraph 29, except to admit that he participated in a discussion about the Fund at the July 25, 2007 Investment Committee meeting and that the head of one of the advisory groups, who reported to Mr. Flannery, left the meeting after conferring with State Street's legal counsel, who also attended and participated in the Investment Committee meeting at Mr. Flannery's request. Mr. Flannery further admits that, on August 1, 2007, he, along with State Street's legal counsel, received a document that was to be used to answer questions from investors entitled "Frequently Asked Questions Sub-Prime/Active Fixed Income Issues." This document speaks for itself. Except as specifically admitted, Mr. Flannery denies the allegations of paragraph 29.

30. Mr. Flannery is without sufficient knowledge or information to respond to the allegations of paragraph 30 and, therefore, denies them.

**Mid-2007 Communications About the Fund**

31. Mr. Flannery admits that State Street repeatedly communicated with investors in the Fund in a variety of ways during the relevant period, including through a series of written communications that were intended to augment other information provided to investors. Answering further, Mr. Flannery states that each of the written communications were reviewed, edited, and approved by, among other groups within the company, State Street's in-house legal counsel, as well as outside legal counsel. Mr. Flannery further admits that, in his Commission testimony, he testified as follows:

We were describing the market background here [in the August 14 letter].  
I don't think typically in an illiquid market it's a good idea to ..., when

you hold illiquid positions in an illiquid market, it is generally not advantageous to telegraph that holding, that view. I don't think most investment managers would be specific about that exposure.

....

... The purpose of this letter was to describe the state of the market and the activity in the investment environment in which -- in which we were operating. And I think that's -- that's what it does, and it does not go into specifics.

Except as specifically admitted, Mr. Flannery denies the allegations of paragraph 31.

32. The allegations of paragraph 32 do not pertain to Mr. Flannery and, as such, no response is required. To the extent a response is required, Mr. Flannery denies the allegations of paragraph 32, except that Mr. Flannery admits that a letter was sent by State Street to investors on July 26, 2007.

33. The allegations of paragraph 33 do not pertain to Mr. Flannery and, as such, no response is required. To the extent a response is required, Mr. Flannery denies the allegations of paragraph 33.

34. Mr. Flannery admits that he participated in the July 25, 2007 Investment Committee meeting and that the Committee voted unanimously to provide certain instructions to the portfolio management team. Except as specifically admitted, Mr. Flannery denies the allegations of paragraph 34.

35. The allegations of paragraph 35 do not pertain to Mr. Flannery and, as such, no response is required. To the extent a response is required, Mr. Flannery denies the allegations of paragraph 35.

36. Mr. Flannery denies the allegations of paragraph 36, except to admit that State Street provided client service personnel with answers to Frequently Asked Questions ("FAQs") concerning the Fund and market conditions. Mr. Flannery further admits that first set of FAQs were reviewed and approved by State Street's in-house legal department and distributed to the

client service personnel with instructions, which had also been approved by State Street's legal department, that the FAQs were to be used to answer investor questions but not to be provided in writing to investors. Mr. Flannery also admits that the FAQs provided some information that was not included in the July 26 letter, and enabled State Street's client service personnel, over which Mr. Flannery had no responsibility, to respond to investor questions. Mr. Flannery further admits that he and certain other managers, including at least one attorney in State Street's legal department, attended a meeting to discuss the "communication plan" that had been formulated by State Street's Client Relations department and approved by State Street's legal department. Mr. Flannery further admits that State Street provided holdings and other information to investors pursuant to a communication and business model that was in place before Mr. Flannery arrived at State Street, was approved by State Street's legal and compliance departments, and was in accordance with industry standards for banks serving sophisticated institutional investors in collective trust funds, but nevertheless was at all times well-outside the scope of his responsibilities or authority. Except as specifically admitted, Mr. Flannery denies the allegations of paragraph 36.

37. Mr. Flannery admits that State Street repeatedly communicated with investors in the Fund and the related funds in a variety of ways during the relevant period, including through a series of written communications that were intended to augment other information provided to investors, one of which was sent to investors on August 2, 2007. Answering further, Mr. Flannery states that the August 2 letter was reviewed, edited, and approved by a number of groups within the company, including State Street's in-house legal counsel, as well as outside legal counsel. Answering further, Mr. Flannery states that the language in the August 2, 2007

letter speaks for itself. Except as specifically admitted, Mr. Flannery denies the allegations of paragraph 37.

38. Mr. Flannery admits that, on August 1, 2007, he provided one edit to the August 2 letter. Except as specifically admitted, Mr. Flannery denies the allegations of paragraph 38.

39. Mr. Flannery admits that he participated in the July 25 Investment Committee meeting and that the Committee voted unanimously to provide certain instructions to the portfolio management team. Mr. Flannery further admits that the Fund's portfolio manager attended the July 25 Investment Committee meeting. Mr. Flannery is without sufficient knowledge or information to respond to the remaining allegations of paragraph 39 and, therefore, denies them.

40. Mr. Flannery admits that he signed a letter, dated August 14, 2007, that provided additional information regarding market activity and the Fund. Mr. Flannery admits that the August 14 letter, which was reviewed, edited and approved by, among other groups within the company, State Street's in-house legal counsel, as well as outside counsel, states that "While we will continue to liquidate assets for our clients when they demand it, we believe that many judicious investors will hold the positions in anticipation of greater liquidity in the months to come." Except as specifically admitted, Mr. Flannery denies the allegations of paragraph 40.

41. Mr. Flannery admits the allegations in the first sentence of paragraph 41. Mr. Flannery is without sufficient knowledge or information to respond to the allegations in the second sentence of paragraph 41 and, therefore, denies them. Answering further, Mr. Flannery states that the State Street attorney referenced in paragraph 41 at least knew that GAA had recommended a change of investment strategy to investors, and that this information was also included in the FAQ document, and would, on instruction from State Street's in-house counsel,

only be provided to investors if they asked. Mr. Flannery denies the allegations in the second sentence of paragraph 41. Mr. Flannery is without sufficient knowledge or information to respond to the allegations contained in the last sentence of paragraph 41 and, therefore, denies them. Except as specifically admitted, Mr. Flannery denies the allegations of paragraph 41.

**E. VIOLATIONS**

42. Mr. Flannery denies the allegations of paragraph 42.

43. Mr. Flannery denies the allegations of paragraph 43.

44. Mr. Flannery denies the allegations of paragraph 44.

**III. & IV.**

The allegations of Sections III and IV of the Order state legal conclusions, and make characterizations and other statements to which no response is required. To the extent a response is required, Mr. Flannery denies the allegations and requests that the Court deny each and every one of the Commission's prayers for relief.

**ADDITIONAL DEFENSES**

Mr. Flannery hereby gives notice that he may assert the following defenses. In so doing, Mr. Flannery does not assume any burden of proof that would otherwise rest on the Commission. Mr. Flannery expressly reserves his right to assert any additional defenses.

**1. *FIRST DEFENSE - (Failure to State a Claim)***

The Commission's Order fails to state a claim upon which relief may be granted against Mr. Flannery.

**2. *SECOND DEFENSE - (Failure to Plead Fraud With Particularity)***

The Commission's claims against Mr. Flannery fail, in whole or part, because the Commission has failed to plead its fraud allegations with the required particularity.

**3. *THIRD DEFENSE - (Failure to Plead Facts Giving Rise to an Inference that Mr. Flannery Acted With a Culpable State of Mind)***

The Commission's claims against Mr. Flannery fail, in whole or part, because the facts pled by the Commission do not give rise to an inference that Mr. Flannery acted with the state of mind required to establish liability under any of the Commission's legal theories.

**4. *FOURTH DEFENSE - (Lack of Culpable State of Mind)***

The Commission's claims against Mr. Flannery fail, in whole or part, because Mr. Flannery acted reasonably and in good faith at all relevant times, and did not act at any relevant time with the state of mind required to establish liability under any of the Commission's legal theories.

**5. *FIFTH DEFENSE - (Advice of Counsel)***

The Commission's claims against Mr. Flannery fail, in whole or part, because Mr. Flannery acted at all relevant times in good faith upon, and in conformity with, the advice of informed and knowledgeable counsel.

**6. *SIXTH DEFENSE - (Reasonable Reliance)***

The Commission's claims against Mr. Flannery fail because Mr. Flannery relied upon others to determine what additional information needed to be provided to investors.

**7. *SEVENTH DEFENSE - (Lack of Material Misrepresentation or Omission)***

The Commission's claims against Mr. Flannery fail, in whole or part, because Mr. Flannery neither made nor played a substantial role in making any statement that contained any untrue statement of material fact or omitted any material fact that should have been disclosed to the Fund's sophisticated investors under the circumstances.

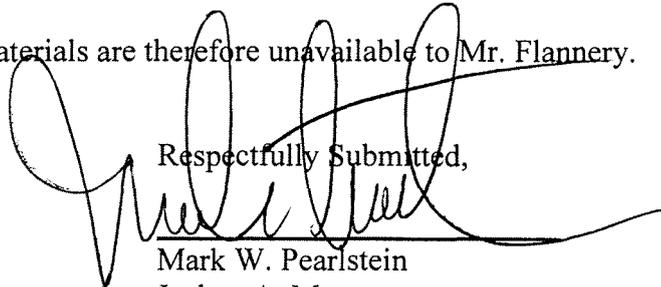
8. ***EIGHTH DEFENSE - (Lack of Connection with the Purchase or Sale of a Security)***

The Commission's claims against Mr. Flannery fail, in whole or part, because the statements of which the Commission complains were not made in connection with the purchase or sale of a security.

9. ***NINTH DEFENSE - (Lack of Due Process)***

The Commission's claims against Mr. Flannery fail, in whole or part, because Mr. Flannery's ability to defend against the allegations is impaired because State Street has not waived the attorney-client privilege with respect to all materials relevant to the statements at issue, and substantial exculpatory materials are therefore unavailable to Mr. Flannery.

Dated: October 25, 2010



Respectfully Submitted,

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